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RUEHNO/USMISSION USNATO PRIORITY 3588

RUEAIIA/CIA WASHDC PRIORITY

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C O N F I D E N T I A L SECTION 01 OF 02 TIRANA 000585

SIPDIS

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TAGS: ECON EFIN EINV PGOV AL

SUBJECT: ECONOMY STILL GROWING, BUT CAUTION IS KEY

Classified By: Charge d'Affaires Deborah A. Jones, reasons 1.4 (b) and (d)

11. (SBU) SUMMARY: Against all odds, the consensus view among economists is that the Albanian economy will post positive growth for 2009. Although the GOA's projection of 4.8 percent growth for 2009 is almost certainly too high, Ministry of Finance economists privately say that the economy will nevertheless grow by 3 percent this year. The IMF recently upped its forecast to .08 percent. Albanian Bank Governor Ardian Fullani told journalists August 26 that Albania had withstood the worst of the financial crisis but the GOA's expansionary policies are a serious potential risk to economic stability. Economists are concerned about the anticipated 2009 budget shortfall of \$150 million and how Albania will fare without IMF oversight. The GOA publicly projects overly optimistic budget and spending targets which may create long-term difficulties. END SUMMARY.

ALBANIA BUCKS THE TREND

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12. (SBU) In a recent conversation with the Ambassador, Central Bank Governor Ardian Fullani characterized Albania's economy as "steady but shaky." In July the IMF raised its projection for Albania's 2009 GDP growth from 0.4 percent to 0.8 and has told Post it may raise its projection even further if excessive summer rain results in strong agricultural output in the autumn. Speaking to journalists on August 22, Finance Minister Bode said that Albania had "weathered the test" of the financial crisis, and reiterated the GOA's projection of 4.8% growth in 2009. However, economists in the Ministry of Finance believe that three percent is a more realistic target. Fullani has publicly noted a recent increase in bank deposits and bank credits, but has warned that unemployment will likely continue to rise. Fullani also held a press conference August 26 and said that Albania had seen the worst of the financial crisis, but cautioned that the GOA needs to respect budget deficit targets and must draft a 2010 budget that reflects a commitment to maintaining macroeconomic stability. He also noted the World Bank's warning that remittances will continue to fall globally during 2009, and he cautioned that the rise in unemployment in Italy and Greece will likely make remittances from those countries less stable. (Note: Remittances account for roughly 9.5 percent of Albania's GDP. End Note).

THE INCREASING DEFICIT

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13. (SBU) A major concern for Fullani is the GOA's ability to raise financing to cover its deficit and the size of the deficit it plans to run in 2010. According to sources at the

Ministry of Finance, state revenues in 2009 are projected to rise by only 8% (significantly less than the projected 15 percent rise in revenues), potentially resulting in a budget shortfall of approximately USD 215 million. While it is likely that the GOA will be able to cover its 2009 revenue shortfall with revenue from privatizations, privatization is not a long-term solution for financing the deficit. Fullani

warned that in 2010 the government may have to seek alternative sources to finance the deficit. Slowed GDP growth in 2009 and 2010 will result in an increase in certain key ratios, such as Debt/GDP and Deficit/GDP. This could effect Albania's credit rating from Moody's, which could make it more difficult for Albania to secure financing in 2010. There may be additional privatization opportunities that could boost revenue, such as granting various concessions, but development spending and capital expenditures may have to be cut.

#### GOA HALTS TENDERS; ADMITS LACK OF CASH RESERVES

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¶4. (SBU) At the request of Minister of Finance Ridvan Bode, in July the Government announced that it will freeze all future tenders for 2009 and that only the Council of Ministers will have authority to launch new tenders. While the official purpose of this decision is "to increase the effectiveness of current contracts in public projects," many critics read this as the government's first acknowledgment of Albania's economic difficulties and

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the state's overspending. For the foreseeable future, the GOA is likely to use concession agreements in place of tenders. The GOA also admitted privately this week that it lacks emergency reserves to deal with the H1N1 virus and other potential crises.

¶5. (C) COMMENT: While the GOA will certainly face a budget shortfall between now and the end of 2009, most observers believe that the shortfall is manageable and can be overcome through a mix of delayed spending and targeted budget cuts. More worrisome is the 2010 budget. Without IMF oversight, the Ministry of Finance will be more susceptible to pressure from the Prime Minister and others to put out an unrealistic budget for 2010, with overly optimistic growth and revenue forecasts that will leave the government with little wiggle room in the event revenues and growth fall short. Although the GOA should have the cash needed to make it through the end of the year, the lack of emergency cash reserves shows that the GOA is only one crisis away from a serious budget crunch. It is imperative that the GOA base its 2010 budget on reasonable growth and revenue projections in light of the uncertain economy.

JONES